

Unrelated trade or business; business league; distribution of magazine. An exempt association of credit unions that, as part of its activities, publishes and sells to its members a consumer-oriented magazine designed as a promotional device for distribution to their depositors is engaged in an unrelated trade or business.

Advice has been requested whether, under the circumstances described below, the distribution of a magazine by a business league exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 is unrelated trade or business within the meaning of section 513.

The organization is an association of credit unions. As part of its activities, the organization publishes a consumer-oriented magazine every quarter and makes it available to its member-credit unions for purchase in any quantities. For an additional charge, the organization will print the name of the member-credit union in a space on the back cover of the magazine. Otherwise, the space is left blank to permit the member-credit union to add its name and any other message by stamp or label.

The magazine is designed as a promotional device for the purchasing credit unions to distribute to their member-depositors in any manner they choose. The magazine contains no advertising and does not refer to specific products or manufacturers. Each edition of the magazine usually contains seven or eight articles on various consumer topics. Representative articles discuss buying a used car, avoiding bankruptcy, purchasing food, and financing a college education.

Section 513(a) of the Code provides that the term 'unrelated trade or business' means any trade or business the conduct of which is not substantially related to the exercise or performance of an organization's purpose or function constituting the basis of its exemption under section 501, aside from its need for income or funds or the use it makes of the profits derived.

Section 1.501(c)(6)-1(a) of the Income Tax Regulations provides, in part, that the activities of a business league should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Section 1.513-1(d)(1) of the regulations provides that gross income derives from 'unrelated trade or business,' within the meaning of section 513(a) of the Code, if the conduct of the trade or business which produces the income is not substantially related (other than through the production of funds) to the purposes for which exemption is granted. The presence of this requirement necessitates an examination of the relationship between the business activities which generate the particular income in

question and the accomplishment of the organization's exempt purposes.

Section 1.513-1(d)(2) of the regulations provides that trade or business is 'related' to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income); and it is 'substantially related,' for purposes of section 513 of the Code, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

In Rev. Rul. 68-267, 1968-1 C.B. 284, a business league, composed of retail food merchants, operates a coupon redemption service. Members of the organization forward merchandise coupons that they have redeemed for customers, and the organization pays the members the face value of the coupons less a service fee, accumulates the coupons, and presents them to the individual issuers for reimbursement. Because the coupon redemption service provided by the organization does not contribute importantly to the promotion of a common business interest but is the performance of services for individual members for a fee, it is unrelated trade or business within the meaning of section 513 of the Code.

In Rev. Rul. 73-386, 1973-2 C.B. 191, a business league secures and supplies business concerns with job injury histories on prospective employees upon request. The service is available to member and nonmember business concerns alike, and a charge, set at an amount calculated to return the organization a profit on the undertaking, is made for the service. The service does not promote the business interest of the members in common or as a whole but rather is the performance of a particular service of a commercial nature for individual business concerns. Thus, it is unrelated trade or business within the meaning of section 513 of the Code.

By selling a magazine to its members for subsequent distribution as a promotional device, the organization is similarly furnishing its individual members with a regular commercial service they can use in their own operations. The service does not promote the improvement of business conditions of one or more lines of business, which is the purpose for which the business league is exempt from Federal income tax. Because there is no substantial causal relationship between this activity and the achievement of the organization's exempt purposes, the activity does not contribute importantly to the accomplishment of the organization's exempt functions under section 501(c)(6) of the Code.

Accordingly, under the circumstances described, the

distribution of the magazine by the organization is unrelated trade or business within the meaning of section 513 of the Code.